ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN OCTOBER

A new postwar high in industrial production appears to have been attained in October. Expanded output of steel, of producers' durable goods, and of military equipment is expected to raise the Federal Reserve Board index of industrial production slightly above the previous high of 211 in September. With such key raw material industries as iron and steel, copper, zinc, paper, cement, and various industrial chemicals operating at or over capacity, raw material bottlenecks are likely to be a serious deterrent to further expansion of industrial output in the near future. Such expansion would clearly be desirable in view of the fact that the full impact of military orders on the economy has not yet been felt and that unfilled orders have been rising steadily despite the record levels of production (Chart, p. 6).

Production Controls Taking Effect

Government controls over production are rapidly taking shape. These controls are of two general types: military priorities, which channel raw materials into rated defense (DO) orders; and special allocations to essential civilian activities, such as the construction of freight cars. In the case of steel, 15 percent of production has been reserved for DO orders plus another 310,000 tons per month for freight cars. This means, of course, cutbacks in civilian production. Ford has already announced a sharp reduction in automobile production because of inability to obtain sufficient steel, and other auto manufacturers are likely to follow suit.

Unemployment Down Sharply

Only three people out of every 100 members of the civilian labor force were out of work in October. Favorable farming weather plus draft calls reduced the ranks of the unemployed by 400,000 to 1.9 million, a two-year low. The unemployment figure would have been even smaller were it not for the entrance of about 140,000 persons, mostly women, into the labor force. Although a shrinking number of unemployed is ordinarily a sign of a prosperous economy, in the current situation it also indicates that the demands of the defense effort are rapidly depleting this source of manpower reserve.

Total civilian employment rose by over half a million to 61.8 million, the entire increase being the result of a 700,000 jump in the number of farm workers. Nonfarm employment declined slightly to 53.3 million.

The Construction Boom

During the first ten months of this year the value of new construction, at $22.8 billion, exceeded construction activity in the same period of 1949 by 22 percent. Although construction activity experienced a seasonal decline in October, the construction boom is still very much alive, as is evidenced by the fact that construction activity this October exceeded the high October, 1949, level by 24 percent, and in the case of private residential construction by 46 percent. Some indication of the magnitude of the housing boom is provided by the fact that 1.1 million nonfarm houses were started in the first 9 months of 1950, more such homes than were started in the entire year of 1949.

Construction activity in October was down 4 percent from the September level. A reduction in the amount of private home building was the principal cause of the drop, though highway and farm construction were also down noticeably. These declines more than offset an 8 percent increase in private nonresidential building. The October construction figures mainly represent work started during earlier months, and therefore reflect only to a limited extent the effect of recent government actions on the construction industry.

Farm Outlook Bright

The average American farmer can expect only a slight decline in his gross income in 1950 and a substantial increase in 1951, according to the latest estimates of the U. S. Department of Agriculture. The upward trend in farm income that began in mid-1950 is expected to continue in 1951 and raise gross farm income in that year by 10 percent or more above the estimated 1950 level of $31.8 billion; this would exceed the record highs of 1947 and 1948.

Net farm income is expected to rise in 1951 even more than gross farm income. The farmers' net this year is estimated at $13.3 billion, about 6 percent below the corresponding 1949 figure, though it probably will not reach the 1947 or 1948 highs. Mainly responsible for the decline is a 3 percent rise in farm production expenses due to increases in the cost of purchased feed and livestock, interest and depreciation charges, taxes, and motor-vehicle operation costs. The percentage increase in total expenses next year is expected not to be much more than half as large as the increase in cash receipts.

COLOR TELEVISION · · · By Wayne Coy · · · Page 8

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Stock Market Appraisal

Stock market action continues subject to brief, violent reversals as fears gain dominance or are relieved by the news reports of the day. This is perhaps characteristic of speculative sentiment in periods of disturbance and uncertainty; but it seems aggravated in recent years by the overexcited overemphasis given minor or even inconsequential events by radio newscasts and commentators. To gain the stable perspective necessary for sound judgment in speculative or investment operations, it is necessary to consider the basic factors that will persist through the transitory ups and downs of market sentiment.

War Dominates Business Outlook

The international situation produces reassurance as well as uncertainty, because the increase in military expenditures rules out recession. Even on a conservative appraisal, the military program will be large enough to more than offset any decline in private spending during the next year; and clearly, it is not just a one-year effort, but will carry into the indefinite future.

It is this latter aspect that has provided the extraordinary stimulus to business which brought on the first flush of inflation. Everyone seeks to protect against future shortages and to anticipate future needs. Stockpiling is pursued by private business and individuals as well as by government; and industry is not only putting its facilities in the best of shape for future operation, but is expanding them as rapidly as possible.

In an economy being expanded and organized for war, requirements for new plant and equipment are overwhelming. Illustrative of the drive for quick expansion of capacity is the railroad car building program, which has called forth the first use of controls to allocate steel for nonmilitary purposes. A large program for steel expansion has also been announced, and the industry is under pressure for still further increases. The aluminum industry, too, must expand, and this in turn will require expansion of capacity to generate electric power.

All such expansion will be done under certificates of necessity, which permit the amortization of costs over a five-year period. This adds the incentive of writing off new capacity in a period of large and heavily-taxed corporate profits. It seems almost inevitable that direct military procurement will be overshadowed by indirect military and essential civilian requirements in this period as in World War II.

Nor will these developments be confined to the war industries. Announced expansion plans in the food, chemical, and some other industries are the largest on record. A continuing basis for expansion of civilian industries lies in the increase in income that is now taking place. More workers are being employed, longer hours are being worked, and higher wages are being paid. These and other increases in income will make for the usual stepping-up of consumer purchases. But material shortages and controls will restrict expenditures for durable goods, so that we may again see, as in the war years, both a sharp increase in personal savings and an abnormal expansion of expenditures for nondurable goods. The stimulus of war expansion is bound to be felt in many industries besides those specifically engaged in war production.

Psychological Factors in the Market

The broad advance in the stock market since the middle of last year reflects, in large degree, the removal of "recession" fears. The assurance of future earnings is, in effect, an assurance of future security values. But how high prices should be in relation to earnings is something the market insists on deciding for itself.

At this time, it continues to capitalize record earnings at an extremely low rate, in keeping with the pattern of the last four years. Just two years ago, in an article entitled "That Stock Market Barometer — Exploded," we pointed out some of the influences responsible for this market situation. Out-and-out speculation has still to put in an appearance. Buying to date has been largely for cash, with little increase in brokers' loans. Yet, there are definite signs that the freeze on speculative psychology is relaxing its grip. The shift from avoidance of the market to participation has begun, and it will probably continue.

Although the market has made new postwar highs in recent months, price-earnings ratios have been kept low by the sharp upsurge in corporate profits. Preliminary reports show that profits in the third quarter of 1950 were more than 50 percent higher than in the same quarter of 1949. Perhaps, as taxes cut deeper into profits, the disparity between earning power and prices will not seem so large, but even then higher prices will be justified.

War scares, too, have lost much of their power to depress the market. War is still feared, but there has been a hardening of public attitude that changes reactions to it. What has been developed and may be observed, for example, in the election returns, is a blind desire to strike out at anything and everything communistic. New war incidents, like the Chinese intervention in Korea, aggravate this crusading spirit, and thus tend to produce a state of excitement rather than of depression. Fear may still produce the immediate reactions. It is not so likely to prevent the subsequent advances.

The Bogey of Historical Highs

As the market hesitates near the highs, a new fear gains in effectiveness. It is the fear that the market has become vulnerable because prices are the highest in two decades. This notion that the peaks of the past provide a sound basis for judging the present is a bogey whose influence cannot be entirely discounted. It dwells in imaginations tied down by preoccupation with the lines on a chart. Lacking vision beyond these confines, such imagination fails to perceive the essential differences that justify striking out into new territory.

(Continued on page 6)

BAKING: A LEADING AMERICAN INDUSTRY

The world's first bread was made by Stone Age men about 240,000 years ago. From primitive times, baking was essentially a household task, although small bake shops soon appeared when towns developed. Throughout history, the baker has been a highly respected individual. In ancient Greece he was eligible for the coveted position of senator, and in medieval Germany the murderer of a baker was fined three times as much as the murderer of an ordinary man.

In the past fifty years, baking has come out of the kitchen and has evolved into a full-fledged industrial operation. Today large bakeries look like modern manufacturing plants, with automatic conveyors, heavy machinery for mixing, weighing, and wrapping, and huge ovens baking up to 4,000 loaves of bread an hour.

The baking industry is one of the American farmer's biggest industrial customers, annually buying close to $1 billion worth of farm products. Flour is the major ingredient purchased by bakers specializing in the production of bread, which provides half of the industry's total sales. The nation's bakeries utilize about 10 billion pounds of flour annually, turning out 40 million loaves of bread a day. In the manufacture of cakes, which is gaining increasing importance in the industry, shortening, sugar, and eggs are major cost items.

Part of the scientific process of baking is constant research and improvement of products. The industry began adding the nutritional factors found in whole wheat to white bread shortly before the war, and the process was made a compulsory wartime measure in 1943. Today over 90 percent of all bakers' white bread is enriched, and a pound can supply 40 percent of an individual's daily food requirements.

A Three Billion Dollar Industry

The baking industry in America was very small in the days when deliveries had to be made on foot or by wagon and most housewives baked their own bread. It has multiplied its sales 12 times within the past half century, since the automobile and good hard roads appeared and mechanical devices and greater freedom encouraged women to spend less time in the kitchen.

Today bakeries have a product value second only to meat packing among the food-processing industries, with sales well up among the first ten manufacturing industries in the nation. Although there were one-third fewer bakeries in operation in 1947 than in 1939, sales of the 6,800 wholesale and retail multi-outlet bakeries listed in the recent Census of Manufactures were over $2.4 billion, 2¼ times the 1939 value. When the $540-million product value of the biscuit, cracker, and pretzel industry and the approximate sales of the nation's 11,000 single-store retail bakers are added, sales of the baking industry as a whole totaled over $3 billion.

There are three major groups of baking companies: large firms that operate on a wholesale basis; retailers who bake and sell on their own premises; and retail multi-outlet bakeries, including grocery chains, which have a centralized baking plant for their stores.

The trend to the super-market type of grocery merchandising gave impetus between 1929 and 1947 to a nearly 700-percent increase in the dollar volume of bakery products sold through grocery stores. Grocery chain bakeries usually mass produce a limited number of items and resemble typical wholesale units. A similar operation with a greater variety of products is multi-outlet retailing, with a central plant that supplies a number of stores or house-to-house delivery truck routes.

Wholesale bakeries accounted for over half of the sales in the bakery industry in 1947. They are usually large concerns and may be single-plant independents or combination companies with centralized buying for many plants throughout the country.

The many neighborhood single-outlet bake shops specialize in handmade products such as decorated cakes and Danish pastry. They were not, however, included in the Census of Manufactures and their operations will appear in the retail trade division of the Census of Business.

Illinois a Leader in Bakery Production

The 1947 Census of Manufactures lists 1,502 Illinois establishments in the bakery industry, 1,118 of them small retail bakers. These single-outlet retailers employed only 4,800 of the 20,000 Illinois workers in the industry, a total bakery employment which ranked fourth among the states.

Over half of the remaining 384 firms were wholesalers selling primarily to grocers, a field in which Illinois was fourth in the nation. Illinois bakeries ranked third in sales of wholesalers selling mainly to hotels, restaurants, and institutions, and fifth in product value of retail multi-outlet bakeries.

Illinois led the biscuit, cracker, and pretzel industry with a total product value of $55 million. The 21 Illinois firms in the industry included such well-known companies as Salerno, Sawyer, Schulze and Burch, Sunshine, and the National Biscuit Company. Nabisco, the largest manufacturer of cookies and crackers in the world, has two plants in Chicago employing 2,000 workers.

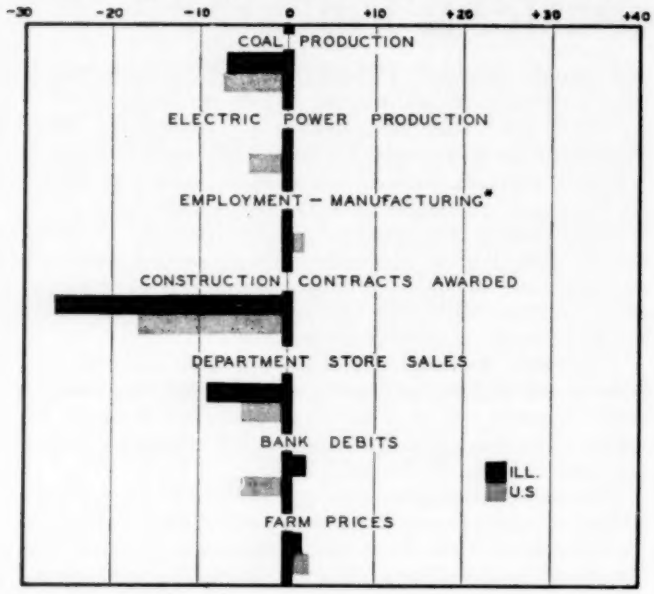
A good deal of the 170-percent rise in the sales of the the biscuit and cracker industry between 1939 and 1947 was the result of a remarkable increase in the production of machine-made cookies, whose sales jumped from $26 million in 1937 to $298 million in 1947, indicating the success of mass production and promotion in competing with the handmade products.

Another field in which Illinois is outstanding is the production of prepared bakery mixes. A comparatively recent development, they gained popularity during the war when ingredients and help were hard to get. The largest bakery mix plant in the flour milling industry is the million-dollar Pillsbury mill at Springfield, which produces 22 types of prepared mixes, including yeast dough, cake, biscuit, muffin, and pie crust preparations for bakeries, hotels, and restaurants throughout the country.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes August, 1950, to September, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Item	Sept. 1950 (1935-39 =100)	Percentage Change from August 1950	Percentage Change from Sept. 1949
Electric power[1]	282.7	0.0	+ 13.9
Coal production[2]	130.9	− 6.1	+124.6
Employment—manufacturing[3]	n.a.	.....	.....
Payrolls—manufacturing[3]	n.a.	.....	.....
Dept. store sales in Chicago[4]	235.3[a]	−12.8	+ 1.9
Consumer prices in Chicago[5]	179.8	− 0.2	+ 2.3
Construction contracts awarded[6]	490.3	−26.4	+48.9
Bank debits[7]	324.6	+ 1.6	+22.7
Farm prices[8]	246.7	+ 1.1	+10.9
Life insurance sales (ordinary)[9]	190.9	−14.3	+23.9
Petroleum production[10]	236.2	− 1.7	− 3.3

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Repts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	September 1950	Percentage Change from August 1950	Percentage Change from Sept. 1949
	Annual rate in billion $		
Personal income[1]	228.3[a]	+ 1.3	+12.2
Manufacturing[1]			
Sales	254.4[a]	− 7.0	+20.5
Inventories	30.6[a, b]	+ 3.0	+ 5.2
New construction activity[1][c]			
Private residential	15.5	+ 0.6	+60.0
Private nonresidential	9.2	+ 0.1	+ 8.7
Total public	8.8	+ 1.9	+ 4.9
Foreign trade[1]			
Merchandise exports	10.9	+19.6	+ 0.2
Merchandise imports	10.3	+ 4.7	+61.8
Excess of exports	0.6	....	....
Consumer credit outstanding[2]			
Total credit	21.5[b]	+ 2.3	+27.7
Installment credit	13.3[b]	+ 2.4	+34.6
Business loans[2]	15.7[b]	+ 6.7	+17.5
Cash farm income[3]	33.6	+ 3.7	− 0.4
	Indexes (1935-39 =100)		
Industrial production[2]			
Combined index	211[a]	+ 1.0	+21.3
Durable manufactures	250[a]	+ 1.2	+25.6
Nondurable manufactures	195[a]	+ 0.0	+13.4
Minerals	162[a]	+ 2.5	+36.1
Manufacturing employment[4]			
Production workers	n.a.	....	....
Factory worker earnings[4]			
Average hours worked	109	− 0.7	+ 3.3
Average hourly earnings	247	+ 1.1	+ 5.2
Average weekly earnings	270	+ 0.3	+ 8.6
Construction contracts awarded[5]	544	−16.9	+17.6
Department store sales[2]	320[a]	− 4.5	+10.7
Consumers' price index[4]	174	+ 0.5	+ 2.5
Wholesale prices[4]			
All commodities	210	+ 1.9	+10.4
Farm products	237	+ 1.6	+10.6
Foods	224	+ 1.5	+ 9.4
Other	196	+ 2.4	+ 9.6
Farm prices[3]			
Received by farmers	254	+ 1.9	+10.1
Paid by farmers	207	+ 0.4	+ 4.4
Parity ratio	105[c]	+ 1.9	+ 5.0

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Based on official indexes, 1910-14 = 100. [d] Data revised; not comparable with figures in previous issues. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950					1949
	Oct. 28	Oct. 21	Oct. 14	Oct. 7	Sept. 30	Oct. 29
Production:						
Bituminous coal (daily avg.) ..... thous. of short tons	1,934	1,958	1,917	1,903	1,916	451
Electric power by utilities ..... mil. of kw-hr.	6,563	6,503	6,509	6,514	6,503	5,433
Motor vehicles (Wards) ..... number in thous.	179.6	180.3	167.9	169.6	178.6	131.6
Petroleum (daily avg.) ..... thous. bbl.	5,823	5,831	5,791	5,803	5,835	5,018
Steel ..... 1935-39 = 100	221.7	220.4	219.5	218.6	217.6	18.6
Freight carloadings ..... thous. of cars	888	891	889	864	880	591
Department store sales ..... 1935-39 = 100	314	304	322	325	320	298
Commodity prices, wholesale:						
All commodities ..... 1926 = 100	168.9	168.7	168.4	168.8	169.4	152.4
Other than farm products and foods .. 1926 = 100	160.8	160.8	160.8	160.0	159.4	145.0
28 commodities ..... August, 1939 = 100	332.2	328.6	327.4	325.8	322.5	247.3
Finance:						
Business loans ..... mil. of dol.	16,322	16,147	16,142	15,915	15,725	13,680
Failures, commercial ..... number	160	165	188	154	148	221

Source: *Survey of Current Business, Weekly Supplements.*

RECENT ECONOMIC CHANGES

Production Leveling Off

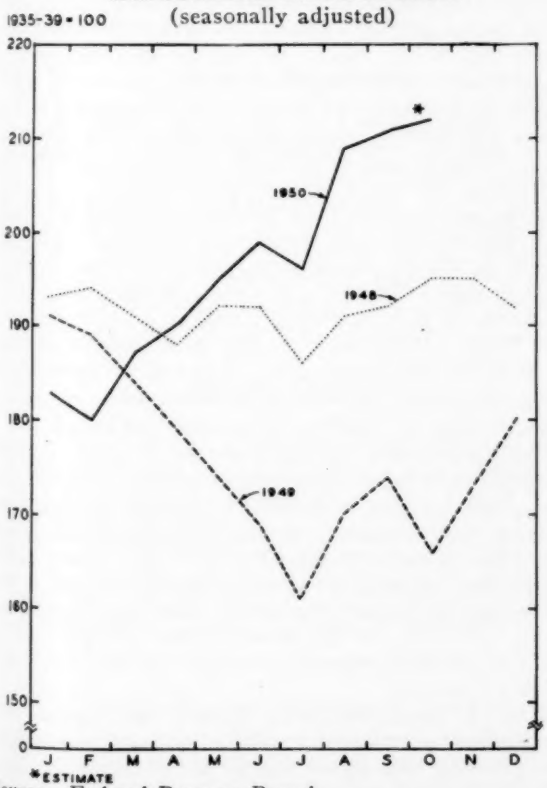
Industrial production has leveled off somewhat since the sharp increase in activity during August, as shown in the accompanying chart. However, output is still setting new postwar highs and is now more than 8 percent over the peak reached in the fall of 1948. Steel production records were set each week during October; output reached 102.6 percent of rated capacity during the week of October 22, equivalent to 1,978,900 net tons of ingots and castings. To maintain such a high level, steel companies were pressing all available facilities into service and neglecting, in some degree, needed maintenance. Automotive companies were likewise maintaining high production levels, averaging more than 172,000 cars and trucks weekly during October. Coal production was increased during the month to an average of more than 11,550,000 tons per week.

Prices Still Rising Generally

The BLS index of prices for 28 sensitive commodities rose steadily during October. A 2.9 percent increase brought the index from 325.0 to 334.4 (August, 1939 = 100). Basic industrial materials rose nearly 5 percent, from 311.5 to 326.1. These increases, although very much smaller than those immediately following the outbreak of hostilities in Korea, are nevertheless substantial and are indicative of the still unsettled state of wholesale prices.

The comprehensive BLS index of wholesale prices showed only a slight rise during October, advancing from 168.8 to 169.4 (1926 = 100). Commodities other than farm products and foods, up 1.0 percent during the month, were chiefly responsible for the increase. Textiles and metal products were up nearly 1 percent each; chemicals rose 2.5 percent. Building materials, however, fell 1.4 percent as demand slackened. Prices of farm products advanced slightly over the month despite seasonal declines in grain and livestock prices.

INDUSTRIAL PRODUCTION



Source: Federal Reserve Board.

Farm prices received dropped more than 1 percent during the month ended October 15, from 272 to 268 (1910-14 = 100). Sharply lower hog prices and somewhat lower prices for most crops, both seasonal factors, are cited by the Bureau of Agricultural Economics as the chief causes. Prices paid remained at the September level, 261 percent of the base period average. As a result, the parity ratio dropped from 104 to 103. Although farm prices paid are now only one point below their high of 262 set in June and July, 1948, prices received are still substantially below the peak 306 of January, 1948, and the parity ratio is considerably under the record 122.

Labor Supply Still Tight

The number of workers seeking jobs dropped another 400,000 between the survey weeks of September and October to 1,940,000, the level of December, 1948, and only about 300,000 more than the postwar low. At this level, 3.0 percent of the civilian labor force is unemployed, compared with 2.7 percent in October, 1948, when unemployment was down to 1,642,000. Employment rose during the month, entirely as a result of increased farm activity.

Bureau of Census data, in thousands of workers, are as follows:

	October 1950	*September 1950*	*October 1949*
Civilian labor force	63,704	63,567	62,576
Employment	61,764	61,226	59,001
Agricultural	8,491	7,811	7,710
Nonagricultural	53,273	53,415	51,290
Unemployment	1,940	2,341	3,576

Average weekly earnings of the nation's factory workers have reached a new high. According to the BLS, earnings of $60.53 at mid-September were slightly higher than in August and were nearly $5.00 over September, 1949. The largest gains have occurred in durable goods industries. Most of the rise over last year is a reflection of sizable increases in average hourly earnings. However, there has also been a stretching of the work week. In durable goods manufacturing, the average week has been lengthened by 2 hours; in primary metals the increase is 4 hours. Among nondurables, textile mills are the only major industry to show a longer work week than in last year, increasing from 38.6 to 40.8 hours.

Credit Advance Slows Down

Although consumer credit and business borrowing have continued to rise, the rate of increase has slowed somewhat, especially in the case of business loans. Such loans increased by $597 million between September 27 and October 25 to a new peak of $16,322 million, more than $2.6 billion over the October 26, 1949, level. This compares with an increase of $986 million in business loans in the previous four-week period.

Consumer credit rose by $504 million in September to a new high of $21,453 billion. In August, consumer credit had risen by $550 million, and during the third quarter, more than $1.7 billion was added to credit outstanding. This smaller increase in consumer credit for September than in August and July is opposite to the usual movement in those months. Increases in installment credit totaling $1.2 billion have been the chief element in the rise. It appears that, as expected, controls on credit put

into effect on September 18 did not have a very severe limiting influence on credit buying; the effectiveness of the later, tighter regulations remains to be seen.

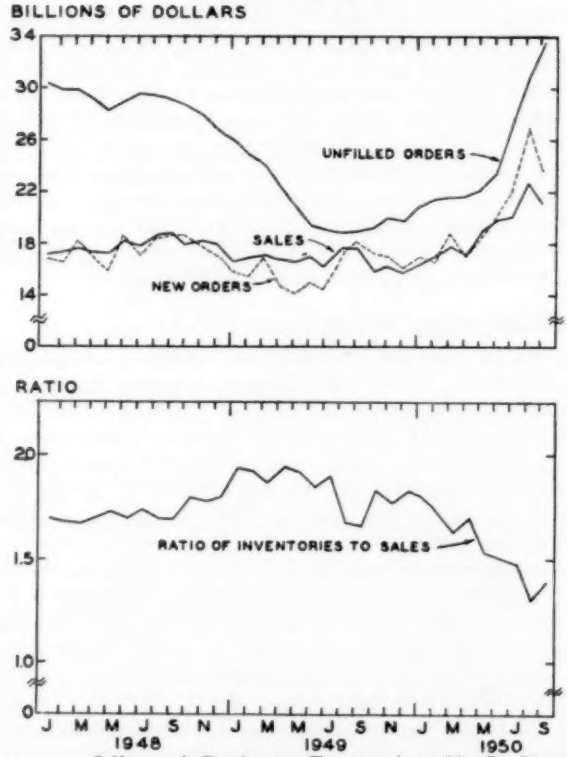
Corporate Profits Show Sharp Upturn

Early estimates made by the Department of Commerce indicate that, in keeping with a substantial boost in industrial production, a new high was set by corporate profits during the second quarter. In contrast to 1949, when profits averaged 20 percent lower than the previous year, the first quarter of 1950 saw a modest rise over 1949 and second quarter profits were up 27 percent over the first quarter. Unadjusted profits before taxes rose from $7.3 billion in the first quarter to $9.3 during the second quarter, a rise from $29.2 billion to $37.4 billion at seasonally adjusted annual rates. After deduction for taxes at the new rates, profits were up $1.3 billion from the first quarter to $5.6 billion, slightly higher than the previous peak set in the third quarter of 1948.

The profits increase was general, with only communications and public utilities showing a small seasonal decline. Transportation profits were roughly doubled from the first to the second quarter; other major groups showed profits advances ranging from 23 to 36 percent after tax deductions. In manufacturing, durables production showed the larger relative gain, rising nearly one-half over the first quarter; nondurable manufacturing profits were up 19 percent.

The rise in corporate profits accounted for about one-half of the increase in national income from the first to the second quarter. A 5-percent advance in national income raised the total to $229 billion at an annual rate after adjustment for seasonal factors. This is slightly below the postwar high in national income, $231.4 billion, attained during the fourth quarter of 1948.

MANUFACTURERS' SALES, ORDERS, AND INVENTORIES



Source: Office of Business Economics, U. S. Dept. of Commerce.

Manufacturers' Sales Off

Despite the substantial increase in production since mid-summer, as shown on page 5, manufacturers are falling still further behind the demand for their goods. Between June and August, sales rose by $3 billion, but new orders, on an unadjusted basis, rose by $6 billion. The accompanying chart shows the resultant very steep rise in the amount of unfilled orders on manufacturers' books, from $23.4 billion at the end of June to $31.5 billion at the end of August. By the end of September, unfilled orders were up to $33.8 billion.

On the other hand, new orders declined by $3.5 billion during September to $23.7 billion. Nevertheless, September sales of $21.5 billion failed to meet demand by more than $2 billion, nearly all of the deficit occurring in durable goods. Seasonally adjusted sales totaled $21.2 billion, 7 percent below the August peak, with the larger portion of the decline centered in nondurables. Manufacturers managed to make small additions to their stocks, gains of $200 million in durable goods and $600 million in nondurables bringing total inventories up to $30.6 billion. Although figures are not yet available, it is probable that the increases appear in stocks of materials and goods in process. As a result of the rise in inventories and the decline in sales, the inventory-sales ratio turned back up in September after a downward trend of several months.

Stock Market Appraisal

(Continued from page 2)

The clear fact is that security prices, like other economic measures, can be considered high or low only in relation to other things. Consider our economic advance since previous years in which present price levels were approached. The gross national product, our broadest measure of aggregate production, is running at an annual rate of more than $280 billion, and will soon exceed $300 billion; this is half again as high as the rate in early 1946 and more than three times as high as in 1937. Our capacity to produce was tremendously expanded during the war and postwar years, and is again being increased at an extremely rapid rate. With real wealth, production, net earnings, and commodity prices so much higher, there is just no sound reason for regarding stock prices as high.

Developments in the money market lend additional strength to market trends. The flow of investment funds will increase as the public is forced to save more — out of income, as indicated above, and in pension fund reserves. High profits, reserves, and government assistance will make it unnecessary for industry to draw more heavily upon those savings. In addition, some investment outlets, such as mortgage credit, will be curtailed.

At the same time, reluctance to put investment funds into stocks is being undermined by the rise in commodity prices. Fear of long-term inflation creates a desire for securities that can also advance in price. Rising living costs stimulate a desire for the higher incomes available from stocks. Although dividends have risen sharply, they are still low in relation to soaring profits, and are being further increased. At the moment, they average over 6 percent of market prices while interest on bonds averages less than 3 percent.

In short, the market seems likely to move ahead into an expanding economic future. As long as the economy keeps growing, and liquid capital keeps piling up, there can be no effective ceiling on stock prices. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Escalator Clauses

The October issue of *Management Record* contains a discussion of What 1.14 Means in GM's Escalator Clause. Outlining how General Motors derived the figure 1.14, the article explains its proper use as a relation at a particular point in time between the consumers' price index and the average GM hourly wage rate, as applied to living cost allowance contract clauses. Since the General Motors contract is the prototype of the currently popular cost-of-living schemes, the 1.14 figure has been adopted by other companies whose hourly wage ratios may be very different. These companies may have adopted the GM cost-of-living philosophy but incorrectly applied its formula.

The United States Department of Labor has announced the publication of a bulletin on the Consumers' Price Index of the Bureau of Labor Statistics and its Use in Contract Escalation. It briefly explains the nature of the Index, its availability, and the cities for which it is published. Nine samples of wage escalator clauses quoted from collective bargaining agreements illustrate the use of the Index in the automatic adjustment of wages.

Atomic Attack Survival

The National Security Resources Board has released the first of a series of official civil defense booklets for the general public entitled "Survival Under Atomic Attack." It is their aim to get the booklet into every home in the nation, and it would be to the advantage of every business concern to avert a possible panic during working hours by seeing that its employees are familiar with these emergency measures.

Wage Payments

The Iilinois Department of Labor recently published the second in a series of discussions of Illinois labor laws, entitled *Illinois Wage Payment Legislation.* Prepared by the University of Illinois Institute of Labor and Industrial Relations, the bulletin is in a question-and-answer form and summarizes seven of the major Illinois laws dealing with payment of wages. It includes laws on time of payment, holding back wages, and paying prevailing wage rates to workers on public projects.

Safety Devices

The harmful effects of sudden blast-type noises are eliminated by a new ear valve sonic filter that leaves the ear canal open for normal voice level sounds. Made by the Sigma Sales Corporation, Los Angeles, it requires no adjustment and has no wires or batteries like those in an ordinary hearing aid. It is expected to find ready use at pistol ranges, skeet and rifle clubs, mills, factories, and shipyards, and wherever general industrial noises occur.

The American Optical Company at Southbridge, Massachusetts, has developed a series of two-tone fused lenses which simultaneously admit and cut out light of different colors to protect industrial workers exposed to intense glare. The bicolored lenses are made by fusing two half circles of glass into a one-piece lens, each half possessing different light-selecting properties. One type has been especially designed for use by operators of open-hearth furnaces and another for screening out the dangerous glare and radiations that accompany welding.

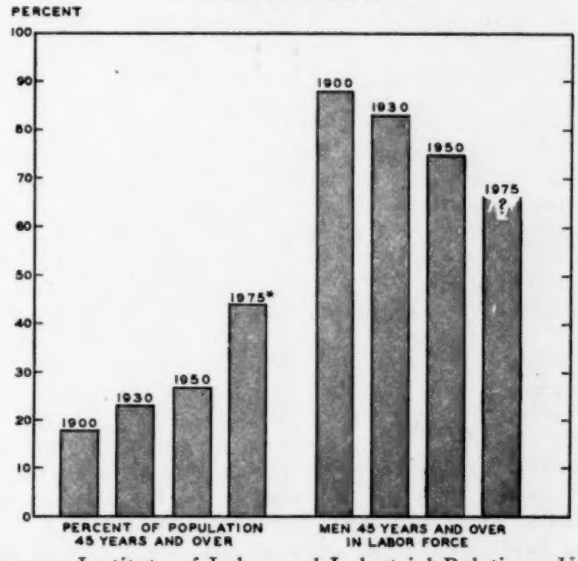
Tungsten Welding Electrodes

The development of pure tungsten electrodes suitable for atomic-hydrogen and gas-shielded electric arc welding of a wide range of metals has been announced by the Tungsten and Chemical Division of Sylvania Electric Products, Incorporated, Towanda, Pennsylvania. The new electrodes, which have a melting point of approximately 6000 degrees F., are consumed at an almost imperceptible rate. Their use in welding in an inert gas atmosphere prevents the formation of oxides, nitrides, and other contaminants which tend to reduce the strength of welds and also permits faster welding with less distortion and closer control of quality.

The Labor Force

A recent bulletin of the Institute of Labor and Industrial Relations, published by the University of Illinois, is titled *Who's Too Old To Work?* A study of the difficulties that people over 45 have in finding jobs, the bulletin points out that although our population is growing older, as shown by the chart, fewer jobs go to older people. Personnel policies favor younger workers, in spite of the fact that workers over 45 usually have less absenteeism and fewer accidents. Today more than one-fourth of our population is 45 or over, and it is estimated that within 10 years one-third of the people in the United States will be in this age group. There will be, therefore, an increasing problem of giving those older people who are willing and able to work the opportunity to do so.

THE LABOR FORCE AND OUR AGING POPULATION



Source: Institute of Labor and Industrial Relations, University of Illinois.
* Percent of estimated total.

THE DECISION ON COLOR TELEVISION

WAYNE COY, Chairman
Federal Communications Commission

The years since 1925 have been crowded ones for the electronic sciences. When chaos and congestion in the ether became completely intolerable, Congress set up the Radio Commission. Through boom and bust, radio continued to grow. In the Second World War, the electronic scientist performed such amazing exploits that he rose to a pinnacle of fame and power. The war-born developments loosed a floodtide of peacetime applications. Today we look to the electronic scientist not only as the man of the hour but the man of the future. We look to him to lift our nation to new heights in peace and to guard us in war.

While radio science and the radio industry have been busy with new developments during this quarter of a century, the scope and complexity of their progress have continually confronted the government with new challenges. How a democracy can best utilize its processes of government to realize the maximum public service from our technological developments consistent with the maximum freedom of individual initiative is an increasingly crucial problem. And it will always be a crucial problem in a free society — a problem that demands the utmost patience, goodwill, and vision of all of us.

Rapid Growth of Radio and Television

Twenty-five years ago there were less than 600 radio stations on the air. Today that number has more than tripled — 2,100 in operation. An entirely new and highly improved sound broadcasting system — FM — emerged and is represented by 700 stations. Television was a dream in 1925. Today we have more than 100 stations on the air — and would have many more were it not for a freeze on new construction. Instead of 5,000,000 receivers, we have 100,000,000, including 8,000,000 television sets.

Twenty-five years ago radio communication was confined to ships, amateurs, and to a small degree to overseas telegraph. Today you can send a radiotelegram almost any place in the world. Overseas commercial radiotelephone service started in 1927. Today you can talk direct to the subscribers of telephones in 80 other countries. The police, fire departments, public utilities, railroads, truck and bus lines, aircraft, taxicabs, and countless other services are using radio. The Commission has issued 160,000 licenses for 40 classes of radio service.

These services, in the variety and number already existing, preempt the technically-developed portion of the electronic spectrum. Even as long ago as 1945, when the Commission gave the go-ahead signal to black and white television, little space was available in this portion of the spectrum; and to date television has been confined to 12 channels in the VHF band. The still relatively unexplored UHF band was preserved for future experimental work.

Despite this limitation, television started to grow by leaps and bounds. Not even the most optimistic were able to foresee the rapid strides the new industry was able to make. The result was that the 12 VHF channels became hopelessly inadequate to handle the demand that grew up — a demand that the Commission and the industry had believed would take many more years to develop. It was thus imperative to find more channels for television stations. It was not possible to assign any more space in the VHF band, since all VHF space was committed to other services, both government and non-government. The only place to pick up channels was the UHF band and the Commission in its July, 1949, notice proposed to open up 42 channels in this band for commercial television. This action meant that the last portion of the spectrum where television could operate in the present state of the art was about to be carved up. It was television's last frontier.

Color Television

Thus, if color television were to have any chance of developing in the foreseeable future, it was apparent that this chance had to be given to it before the last spectrum space where it could operate was disposed of.

I am aware that there are some who question the need for color and who sincerely feel that color is a "phoney" issue which may cause serious disruption of a young and growing industry. Let me assure you that, in the judgment of the Commission, there is nothing "phoney" about the issue. Congress, through the Communications Act, commanded the Commission to "generally encourage the larger and more effective use of radio in the public interest." Certainly, the Commission has encouraged such a development for the past several years. Having reached the point in the development of a television service where the UHF band of frequencies was needed to provide a basis for a nation-wide competitive service, we were at a crossroads with respect to the past encouragement given to the development of color television. We could provide for this important improvement along with black and white in the VHF and UHF or we could provide for black and white service only in both bands. The latter course, however, might foreclose the opportunity for the development of color television in the foreseeable future.

Therefore, it seemed quite clear to us that the groundwork should be laid now for the joint use of both bands — VHF and UHF — for both black and white and color. Hard emphasis is given to this point by the extraordinary rate of development of the monochrome service. If we did not now lay the groundwork for such joint use, it is obvious that when the Commission did get around to adopting a color system we might not be able to choose the best possible color system but would as a practical measure have to consider only such systems as might be compatible with black and white television.

There were three color systems proposed to the Commission — one by Color Television, Inc., one by Radio Corporation of America, and the third by Columbia Broadcasting System. The first two systems are compatible systems; that is, present receivers without making any changes could receive a black and white picture from color transmission of such systems. The CBS system is not compatible. Some changes must be made in existing receivers in order to enable them to receive a black and white picture from CBS color broadcasts.

The Commission carefully analyzed the voluminous record of the hearing. We had to weigh testimony covering almost 10,000 pages of transcript and evidence that was submitted in 265 exhibits. We made detailed and specific findings concerning all three systems — findings approved by all seven members of the Commission. The care with which this work was done can best be indicated by the fact that while, as was to be expected, the partic-

ular result we reached was disappointing to some of the parties, there has been no showing by anyone that the findings are not supported by the evidence in the record.

The Compatible Color Systems

The Commission unanimously found that the CTI and RCA color systems were not suitable for adoption. Without attempting to restate in detail here all the reasons we set forth in our report for arriving at this determination, I shall mention two of the fundamental defects.

In the first place, the Commission found that the quality of the color picture produced by the two systems was not at all satisfactory. In the case of the CTI system there is a serious line crawl or jitter, and in the case of the RCA system there is a prominent dot structure and a marked loss of contrast. Moreover, the colors are not true in either system. This is particularly true of flesh tones. At none of the demonstrations did CTI or RCA correctly reproduce flesh tones. Since the purpose of the hearing was to pick a *color* television system, it is obvious that no serious consideration could be given to a system that failed to produce true colors.

In the second place, the equipment required for the CTI or the RCA system appears too complex for normal use. This is true both for receivers in the home and studio equipment at the station. At the outset of its conclusions the Commission stated that a color system to be adopted must produce a satisfactory color picture, and must use apparatus that is simple to operate in the home and is cheap enough to be purchased by the great mass of the American people.

At all the demonstrations, CTI and RCA had trained operators at hand who worked assiduously before each demonstration to make sure that the equipment was adjusted in tiptop shape and who hovered over the equipment during each demonstration, continuously making adjustments to insure optimum performance. Despite all these efforts RCA and CTI were unable to maintain accurate registration and color control throughout the demonstrations. You can imagine what the situation would be like in the ordinary home where children or untrained adults had to operate such receivers.

An analysis of the two systems showed to the Commission's satisfaction that the defects were fundamental. The equipment is complex because by the nature of the systems, registration and color controls are extremely critical.

The conclusion appears to be inescapable that CTI and RCA devoted so much of their efforts to the compatibility part of their systems that they never succeeded in producing satisfactory color. The net effect from the adoption of either system would be that the public would continue to receive black and white pictures. For these reasons, there was just no basis upon which the Commission could approve either the CTI or RCA system.

The CBS Color System

The CBS system did not labor under these handicaps. The quality of the color picture was of a high order. A wide variety of subject matter was displayed involving many different colors. Broadcasts were made from studios and from outdoors. In all instances color rendition was of a high quality. The equipment utilized was easy to operate. At not a single demonstration was there any evidence of misregistration or inaccurate color control.

The CBS system does have fewer lines per picture than the present system. However, the addition of color to the picture more than outweighs the reduction in lines so far as apparent definition is concerned. You only have to look at a scene in color and compare the same scene in black and white to be convinced that the addition of color increases severalfold the amount of information that can be transmitted by a picture.

True, a monochrome picture from color transmissions under CBS standards is not of the same good quality as monochrome pictures from transmissions under present television standards. But neither were the monochrome pictures from the RCA or CTI color transmissions. I regarded such pictures as satisfactory in the case of CBS and RCA and unsatisfactory in the case of CTI.

True, also, the CBS color system has been described as a mechanical system inasmuch as a mechanical disc is used at the receiver to achieve color. However, the Commission pointed out in its report that the CBS system is not limited to the mechanical disc. A projection receiver was shown which did not require a disc. Also, if a direct view tricolor tube is successfully developed, all the experts agreed that it can be utilized on the CBS system.

The most serious of the objections to the CBS system were based on the fact that it is an incompatible system. All the Commissioners agreed that it would be desirable to have a compatible color system if that were possible. However, no successful compatible color system had been demonstrated. Since existing receivers can be adapted to receive black and white pictures from CBS color transmissions at a reasonable price, the Commission felt that it was not fair to deprive 40,000,000 American families of the opportunity to have color simply because the owners of 7,000,000 or 8,000,000 sets might have to spend some money in adapting their present receivers.

The Commission was willing to postpone adopting a final color decision, and, among other matters, give the proponents of a compatible system another opportunity to show that they have a system that can satisfy the Commission's requirements, provided that in the meantime the manufacturers would prevent the compatibility problem from increasing. This could have been done by building television receivers with bracket standards, which would enable reception of a black and white picture from present transmissions or CBS transmissions. The manufacturers were either unwilling or unable to give assurances of such action. The Commission, therefore, adopted the CBS color system. Had we done otherwise, we would have invited the risk that if the compatible systems failed again, it might no longer be possible to adopt a color system we know is satisfactory, because the number of receivers in the hands of the public could have become so large that as a practical matter it would be extremely difficult to adopt an incompatible system.

In closing, I would like to say that the Commission's long hearing on color television, our recent color decision, and the other phases of the allocation problem still before us highlight in striking fashion the nation's dependence on electronic research. We must move ahead now with what we have; but new developments must be given the fullest support that the electronics industry, our school systems, and the government can muster. The field of fundamental research is not embroidery, is not a luxury. It is basic. It is a mighty arsenal of democracy for both war and peace. For the long haul of the future, we cannot rely on improvisation. We must have consistent year-in and year-out programs of fundamental research — programs that will be adequately financed to attract the finest talents in the nation. To do less is to shortchange the future, to frustrate our potentialities.

LOCAL ILLINOIS DEVELOPMENTS

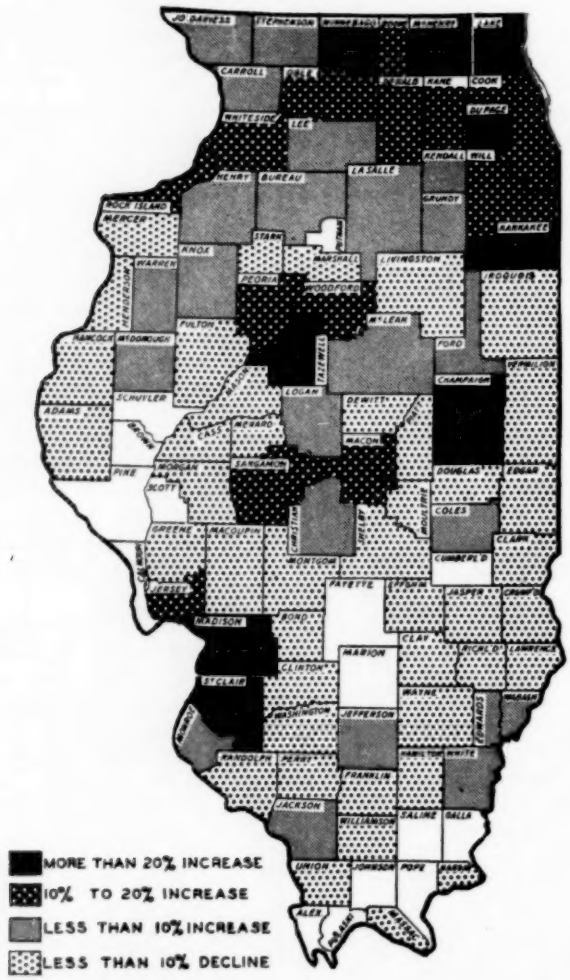
Illinois business in September continued well above last year's level. Total employment in the State increased. However, manufacturing employment was down slightly from August, primarily because of strikes and shortages of materials in the agricultural machinery and nonelectrical machinery industries. Relatively large gains in employment were reported for the Chicago, Danville, Elgin, Joliet, Peoria-Pekin, and Springfield areas. Steel production in the Chicago area was 1,488,600 tons, up 5 percent from August, and second only to the May record of 1,546,000 tons. Department store sales were up 6 percent from August. Contracts for the defense effort are beginning to mount in the State; the largest reported to date was that given to Ford Motor Company, which will manufacture B-36 aircraft engines in the Tucker plant.

Electric Power Production

Daily average electric power production in the State in September was 57.3 million kilowatt hours, up 3 percent from August and 14 percent above last year's level.

A recent report by the Rural Electrification Administration shows that Illinois farmers have been making much wider use of electrical appliances in recent years. Average monthly consumption on REA-financed lines jumped from 69 kwh. in 1941 to 170 kwh. in 1949. The report also shows that 97 percent of Illinois farms are now electrified, leaving fewer than 6,000 of the 198,520 farms without electricity, and these are mostly in remote areas. Nationally, only 86 percent of the farms have electricity.

ILLINOIS POPULATION
Percentage Change, 1940 to 1950



Source: U. S. Census of Population, 1950.

Construction

Construction activity during the month was considerably below the August peak, but still high in comparison with last September. The dollar value of construction for the first nine months of 1950 was 52 percent greater than for the same period last year. Nationally, the nine-month total for 1950 was 50 percent higher than 1949.

Plans for the construction of one of the largest crude oil pipeline projects since the war have recently been completed. Platte Pipe Line Company is constructing a 20-inch line, extending from the Worland area of Wyoming to the Wood River refinery area, which will have an initial delivery capacity of 70,000 barrels daily. Cost of the 1,080-mile line is estimated at $60 million.

In the Chicago area, National Video Corporation has acquired 6 acres of land and will construct a 150,000-square foot building which will be used to manufacture television tubes. Philco Distributors, Inc., is constructing a new warehouse. The Acme Steel Company at Riverdale is constructing a new reception building to cost $125,000, and Production Steel Company will build a new plant in Broadview. A new garment factory estimated to cost $200,000 is to be built at Du Quoin.

Consumers' Prices

In mid-September, the Chicago consumers' price index was 179.8 percent (1935-39 = 100), down fractionally (0.2%) from mid-August. A drop in food prices was responsible for the slight drop, the first decrease reported since February. Declines in the indexes of retail food prices in Peoria and Springfield also were reported. The Peoria retail food cost index in mid-September was 225.5 percent of its 1935-39 average, down 0.6 percent from August, and the Springfield index declined 1.2 percent to 220.0 percent of its 1935-39 average.

Illinois Population

The number of people living in Illinois rose by 10.3 percent in the last decade. The State population as of April 1 of this year was 8,684,513, an increase of 787,272 since 1940. A total of 45 counties gained in population while 57 counties experienced declines. Champaign County reported the largest relative gain, 50 percent. Generally, the counties showing the greatest percentage increases were those in which the larger cities of the State are located. (See chart) However, within those counties, the suburban areas had the largest gains rather than the principal cities themselves. For instance, Chicago gained only 6.2 percent, while the remainder of Cook County gained 33 percent; East St. Louis gained only 8.4 percent, while the remainder of St. Clair County gained 35 percent; and the city of Peoria gained only 6.1 percent, while the remainder of Peoria County gained 29 percent and neighboring Tazewell County gained 30 percent.

The increase in the population of Illinois was less than the 14.5 percent rise in the population of the nation. As a result, Illinois will lose one of its twenty-six seats in the 83d Congress, which will be elected in 1952.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1950

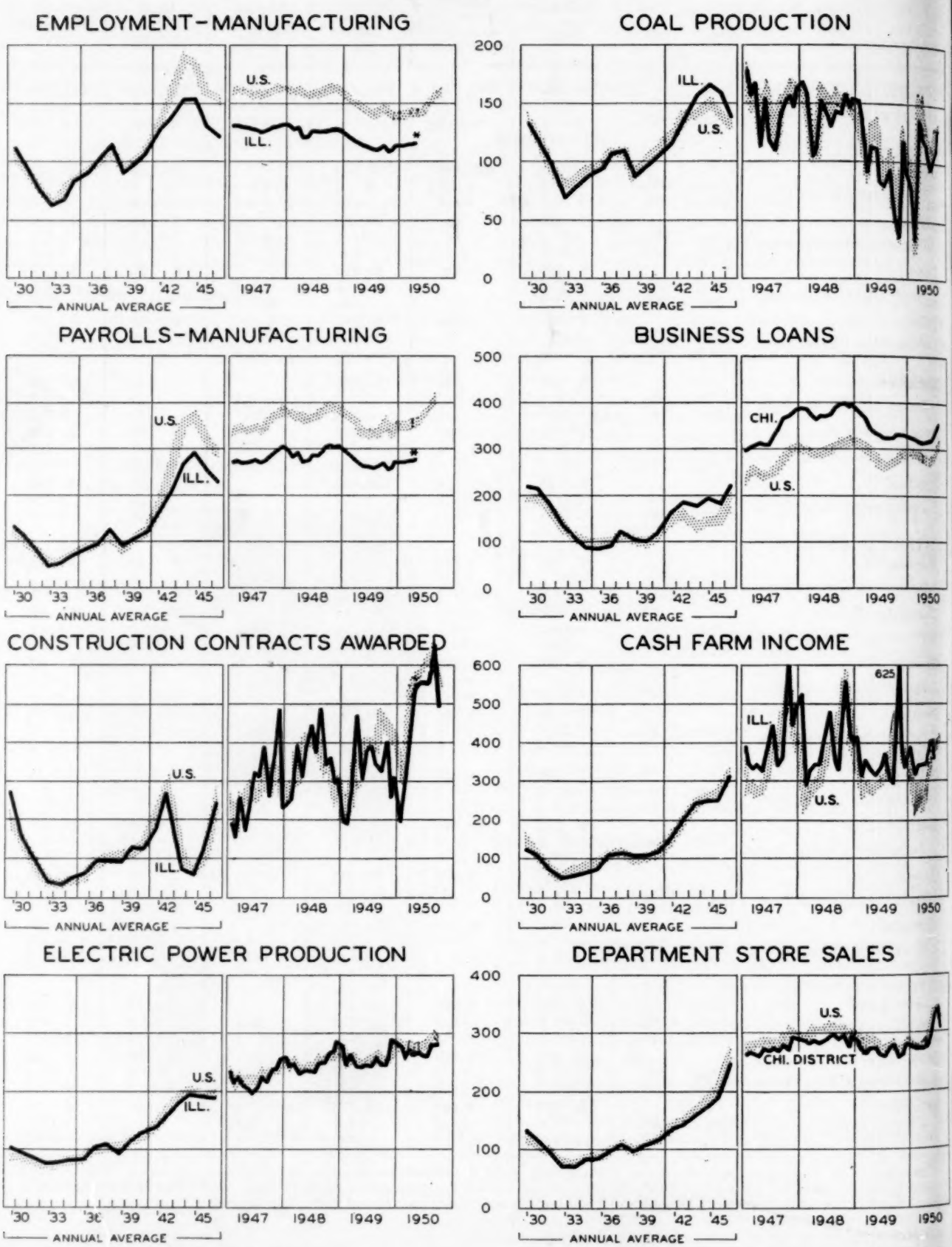
		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$24,642[a]	798,693[a]	$489,474[a]		$10,121[a]	$11,054[a]
Percentage Change from	Aug., 1950	−40.1	+1.7	+4.6	+5.5	+1.6	+6.0
	Sept., 1949	+25.1	+10.8	n.a.	+4.1	+22.7	+1.0
NORTHERN ILLINOIS							
Chicago		$17,075	627,898	$357,140		$9,188	$9,801
Percentage Change from	Aug., 1950	−43.8	+1.6	+5.5	+6.4	+1.8	+7.3
	Sept., 1949	+14.2	+9.2	n.a.	+3.2	+23.3	+0.8
Aurora		$ 320	n.a.	$6,709		$ 40	$ 76
Percentage Change from	Aug., 1950	−34.8		+1.9	+5.7	+3.9	−5.7
	Sept., 1949	+34.4		n.a.	+13.0	+22.1	+3.8
Elgin		$ 159	n.a.	$5,219		$ 27	$ 74
Percentage Change from	Aug., 1950	−87.4		+7.2	+5.9	+7.5	+0.9
	Sept., 1949	−26.1		n.a.	+15.9	+18.8	+27.8
Joliet		$ 448	n.a.	$8,991		$ 46	$ 57
Percentage Change from	Aug., 1950	+34.1		+5.0	+6.1	+6.6	+15.8
	Sept., 1949	+7.2		n.a.	+9.5	+23.5	+12.6
Kankakee		$ 100	n.a.	$4,690		n.a.	$ 28
Percentage Change from	Aug., 1950	0.0		+3.5	−7.9		−3.8
	Sept., 1949	−15.3		n.a.	+14.9		+9.2
Rock Island-Moline		$ 791	14,366	$8,829		$ 34[b]	$ 134
Percentage Change from	Aug., 1950	−23.1	−3.0	−1.4	n.a.	+12.3	+1.9
	Sept., 1949	+52.1	−0.9	n.a.		+32.5	−4.5
Rockford		$1,126	23,334	$14,450		$ 115	$ 141
Percentage Change from	Aug., 1950	+15.4	+2.9	+3.1	+5.7	+6.5	+3.9
	Sept., 1949	+233.1	+29.3	n.a.	+9.1	+33.2	+9.0
CENTRAL ILLINOIS							
Bloomington		$ 280	4,535	$5,234		$ 46	$ 61
Percentage Change from	Aug., 1950	+207.7	−2.5	+0.4	n.a.	+1.5	−13.1
	Sept., 1949	+29.6	+25.2	n.a.		+16.8	−7.2
Champaign-Urbana		$ 318	6,164	$6,654		$ 45	$ 62
Percentage Change from	Aug., 1950	−59.2	−0.7	−2.5	n.a.	−4.7	+3.1
	Sept., 1949	−24.5	+18.6	n.a.		+14.3	+3.4
Danville		$ 280	6,955	$5,717		$ 38	$ 45
Percentage Change from	Aug., 1950	+6.1	−4.4	+0.5	−5.9	−1.3	−3.8
	Sept., 1949	−28.4	+9.9	n.a.	+3.6	+13.3	+2.6
Decatur		$ 184	16,398	$9,188		$ 74	$ 74
Percentage Change from	Aug., 1950	−89.4	−2.8	+2.3	+3.8	−6.6	−1.1
	Sept., 1949	−49.2	+34.6	n.a.	+7.3	+8.2	−3.7
Galesburg		$ 105	4,622	$4,018		n.a.	$ 24
Percentage Change from	Aug., 1950	−73.1	−4.1	+3.6	n.a.		−4.7
	Sept., 1949	+9.4	+21.7	n.a.			−7.2
Peoria		$ 942	43,844[c]	$17,093		$ 199	$ 160
Percentage Change from	Aug., 1950	−49.4	+13.9	+3.1	−2.1	−4.1	−3.2
	Sept., 1949	+115.1	+17.5	n.a.	+5.8	+15.9	−4.4
Quincy		$1,566	6,370	$4,900		$ 31	$ 54
Percentage Change from	Aug., 1950	+711.4	−1.3	+2.3	+8.0	−1.0	−25.1
	Sept., 1949	+1,152.8	+3.4	n.a.	+7.0	+9.3	−11.8
Springfield		$ 501	20,061[c]	$12,623		$ 85	$ 166
Percentage Change from	Aug., 1950	+57.5	−0.9	−2.8	+6.5	+7.2	−3.0
	Sept., 1949	+79.6	+12.1	n.a.	+3.7	+16.8	+5.2
SOUTHERN ILLINOIS							
East St. Louis		$ 136	9,329	$9,167		$ 126	$ 46
Percentage Change from	Aug., 1950	−45.6	−2.5	+7.2	n.a.	−0.9	−0.8
	Sept., 1949	−45.9	+7.6	n.a.		+9.1	+16.1
Alton		$ 186	10,410	$4,628		$ 26	$ 22
Percentage Change from	Aug., 1950	−47.2	−3.5	+4.4	n.a.	+0.6	+7.4
	Sept., 1949	−87.3	+15.8	n.a.		+16.5	+21.2
Belleville		$ 125	4,406	$4,225		n.a.	$ 28
Percentage Change from	Aug., 1950	−40.8	+2.1	+6.6	n.a.		−16.8
	Sept., 1949	+98.4	+21.9	n.a.			+9.3

Sources: [1]U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2]Local power companies. [3]Illinois Department of Revenue. Data are for August, 1950, the most recent available. Comparisons relate to July, 1950. [4]Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. [5]Local post office reports.

[a] Total for cities listed.
[b] Moline only.
[c] Includes immediately surrounding territory.
n.a. Not available.

INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100



* Illinois figures being revised.